

June 25, 1992

Mr. Glenn Ward  
K. Hovnanian Companies of NJ, Inc.  
PO Box 500  
Red Bank, NJ 07701

Dear Glenn:

As we discussed during our previous meetings, J M Sorge, Inc. (JMS) is proposing to alter our present agreement with the Hovnanian Companies to effectively reduce our handling and administrative charges associated with contaminated soil disposal. Under our standard schedule of fees (attached), JMS charges a 15 percent handling and administrative fee. We agree in principal that this fee may require some modification when large volumes of contaminated soils are involved.

We have conducted a review of our processing, insurance and financial costs associated with the handling of contaminated soils. Our costs are as follows:

Insurance: Our insurance carrier imposes a 5 percent surcharge for subcontractor charges.

Processing: The cost associated with accounting, invoicing and payment guarantees to the disposal contractors are difficult to estimate. Based on a review of our records, we estimate that our costs for these services range between 1.5 and 2.5 percent.

Financing: Disposal contractors require full payment within 10 days of invoicing, and we are invoiced on the date of shipment. Since your firm generally handles payables on a 30-day basis, we have assumed a 45-day lag between shipment and receipt of payment. This reflects a 15-day lag in invoicing your firm, plus the 30-day payment cycle. At present, we are paying 1.5 percent over prime or roughly 1 percent per month. Therefore, we have estimated financing costs at 1.5 percent of the subcontractor's invoice.

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